The Regional Municipality of York

Committee of the Whole
Finance and Administration
June 15, 2023

Report of the Commissioner of Finance and the Commissioner of Public Works

2023 Fiscal Sustainability Update

1. Recommendations

1. Council, through the Regional Chair, renew its request of February 23, 2023, for the Province to keep the Region financially whole as a result of development charge collection reductions due to Bill 23, *More Homes Built Faster Act, 2022* (estimated to total between $710 million and $1.9 billion by 2033).

2. Staff report back to Council with a potential strategy for funding development charge reductions due to Bill 23 related to residential discounts and exemptions, once Provincial guidance on these matters is known, to be included as part of the 2024 budget process.

3. Council direct staff, when reviewing servicing requests to accommodate unplanned or accelerated growth approved by the Province, to apply the following key principles:

    a. Prepaid Development Charge Credit Policy, as amended, will be considered to advance infrastructure that is not in Regional Plans where technically and operationally feasible

    b. Unplanned infrastructure must be approved by the Region and shall be 100% funded by developers

    c. Only the in-period growth costs of the infrastructure in the Development Charges Bylaw are eligible for recovery through development charge credits

    d. Water and wastewater servicing capacity will be provided through the local municipality's existing capacity assignment

    e. Ownership of servicing infrastructure will follow the Water and Wastewater Infrastructure, Regional Jurisdiction Policy

    f. Delivery of Regional infrastructure will follow the Region's project delivery process, including route and location selection through an Environmental Assessment consistent with Region's design guidelines, standards and specifications

4. The Regional Clerk forward this report to the Premier, Minister of Municipal Affairs and Housing, Minister of Finance, Local Members of Provincial Parliament and local municipalities.

2. Summary

This is a mid-year update of the 2023 Fiscal Strategy on matters that will have financial sustainability implications for York Region. It outlines the expected financial impact of major planned and priority growth-related infrastructure and asset management needs. In addition, it recommends a strategy for addressing the financial impact of Bill 23, *More Homes Built Faster Act, 2022* (Bill 23) and other recent provincial legislative changes.

Key Points:

- Fiscal sustainability requires planning for the long term with a focus on prudent management of the capital plan, reserves, and debt.
- Council approved a 1% incremental Rapid Transit / Infrastructure Levy from 2022 to 2024 to fund the tax levy portion of the Regional contribution needed for the Yonge North Subway Extension project. Extending this levy to 2025 and 2026, as endorsed through the 2023 Budget outlook, will help fund the tax levy portion of future Bus Rapid Transit (BRT) and priority affordable housing projects over the next ten years, however they will still require senior government funding commitments to be included in the 10-year Capital Plan.
- Bill 23 will result in lower development charge collections than originally anticipated in the 2023 Budget (estimated impact to total $710 million to $1.9 billion by 2033). The Province has recognized that Bill 23 poses a financial challenge to municipalities and has indicated it will assist in transition by keeping municipalities whole, provided housing targets are met; however, to date, there has been no firm funding commitment from the Province.
- Without compensation from the Province, future development charge collections will need to be supplemented with funding from other sources, including potential tax levy and user rate increases, to accommodate planned growth, maintain existing assets in a state of good repair and avoid service level reductions. Any delay in replacing lost development charge collections will result in larger increases being required once implemented.
- The Upper York Sewage Solutions project in the 2023 10-year Capital Plan will now be replaced with a new servicing program for Aurora, Newmarket, and East Gwillimbury which will result in increased costs with advanced and compressed construction timelines in comparison to the existing Master Plan.
- Unplanned servicing requirements from the conversion of former greenbelt areas into development lands and proposed changes to the Provincial Policy Statement (PPS)

and the Bill 97, *Helping Homebuyers, Protecting Tenants Act, 2023* (Bill 97) are also likely to have a financial impact on the Region.

- Unplanned or advanced growth such as that enabled by Minister's Zoning Orders (MZOs) creates unanticipated planning pressures and can create a fiscal gap when required servicing infrastructure is beyond the 10-year Capital Plan or not contemplated in infrastructure Master Plans. General principles proposed in this report ensure any such additional servicing requirements can be addressed in a financially sustainable manner to support the growth.

3. Background

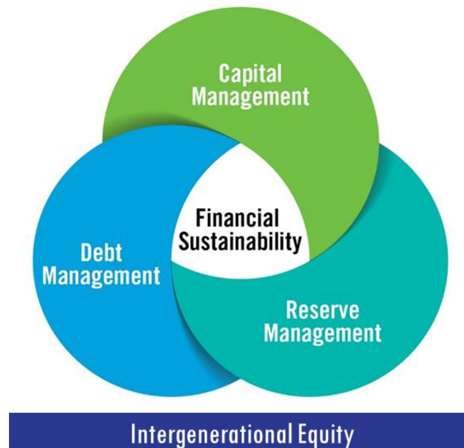
FISCAL SUSTAINABILITY: GENERAL

Fiscal sustainability requires planning for the long term

Fiscal sustainability requires making financial decisions using a long-term lens. The Fiscal Strategy strives to achieve long-term financial sustainability while maintaining a balance between current and future needs of the Region, with a focus on prudent management of the capital plan, reserves and debt as illustrated by Figure 1.

Figure 1

Elements of the Fiscal Strategy



The Budget and Fiscal Strategy strive to achieve fiscal sustainability

The Budget and Fiscal Strategy are two main policy tools the Region uses to achieve fiscal sustainability, based on principles set out in Table 1.

Table 1

Financial Sustainability at York Region

Principles
Keeping growth affordable and Region’s infrastructure in a state of good repair
Maintaining the Region’s AAA credit rating
Maintaining fiscal flexibility to respond to Region’s evolving needs and economic changes
Treating current and future tax and rate payers fairly by striving for intergenerational equity

Council’s commitment to exercise fiscal prudence to maintain a strong financial position has been consistently noted by credit rating agencies. In 2022, both Moody’s Investor Service (Moody’s) and S&P Global Ratings (S&P) reaffirmed their AAA ratings for York Region and highlighted its continued strong financial management as a key contributing factor for their ratings.

Reserve contributions are meant to fund known liabilities, including future rehabilitation and replacement of assets

As part of its strategy for long term fiscal sustainability, the Region contributes to reserves to meet its known liabilities, supply funds for major new capital assets in its 10-year capital plan, support rehabilitation and replacement of existing and planned new assets as well as provide a buffer for significant unanticipated expenditures.

One of the principles of the Fiscal Strategy is to strive to achieve intergenerational equity – where no generation is left worse off through the actions of another. This principle guides elements of the strategy and influences decisions about when infrastructure is built and how it is paid for.

Although reserves have been forecasted to reach approximately $4.8 billion by the end of 2023, there is still a need to build these reserves to address anticipated long-term asset management requirements. As assets age and new assets are added, higher contributions are needed to meet the objective of inter-generational equity. Staff estimate the current gap in planned contributions from the tax levy is about $70 million per year, on average, over the next ten years. Any reallocation of reserve contributions to address lower development charge collections arising from Bill 23 would not only increase the tax levy contribution gap for asset management but also could introduce a user rate contribution gap.

Development charges remain a major source of funding for the 10-year Capital Plan, despite recent cooling of the housing market

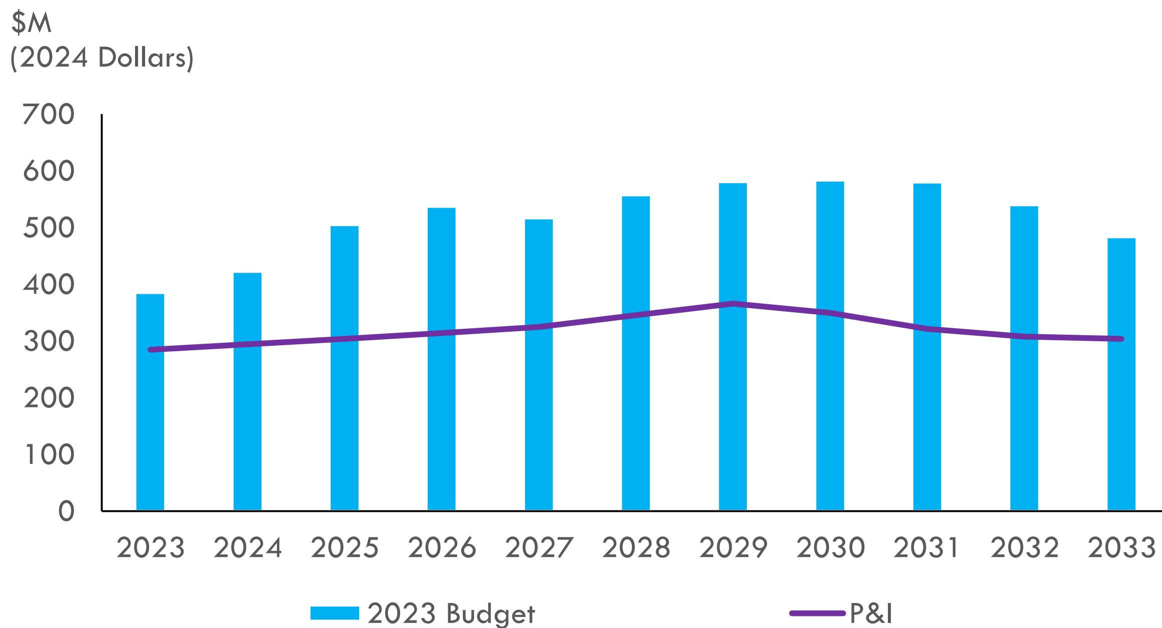
Development charges are the primary source of funding for growth-related infrastructure. 62% of the 2023 10-year Capital Plan (Capital Plan) expenditures relate to growth. Overall, development charges were expected to fund approximately 45% of the total cost of capital infrastructure over the next ten years.

Excluding expected reductions associated with Bill 23, expressed in 2024 constant dollars, the average development charge collection from 2023 to 2033 was forecasted to be $517 million annually, of which 71% would be needed for just principal and interest payments on outstanding development charge debt (Figure 2).

The development charge collection forecast used for the Capital Plan assumes residential development of about 7,900 units per year, which is slightly lower than the level of housing starts achieved in the past ten years. This forecast reflects lower-than-average starts anticipated in 2023 and 2024 as a result of the recent cooling of the housing market. In the long term, this forecast is in line with the 2022 Official Plan. The forecast also assumes non-residential growth of 2.7 million square feet per year. Should growth occur slower than anticipated, development charge collections may be less than forecasted. Prolonged periods of lower development charge collections would increase the need to borrow for growth-related infrastructure.

Figure 2

Forecasted Development Charges Collections and Debt Principal & Interest Requirements in 2023 Budget



Tax levy portion of Region's planned contribution to the Subway expected to be fully funded through the Rapid Transit / Infrastructure Levy by 2031

The 2023 Budget and Capital Plan include a contribution of $1.12 billion toward the cost of constructing the Yonge North Subway Extension (YNSE). The tax levy component of this contribution is expected to be $280 million. Along with the additional $42 million of budgeted oversight costs, this amount will be funded through the incremental 1% annual Rapid Transit / Infrastructure Levy approved as part of the 2022 and 2023 Budgets as well as included in the 2024 operating outlook. Assuming the expected capital contribution requirement of $1.12 billion remains the same, the Rapid Transit / Infrastructure Levy is expected to generate enough revenue to fully fund the YNSE tax levy requirement by 2031.

Continuing the annual 1% Levy into 2025 and 2026 supports unfunded priority projects, and senior government funding will be critical to move them forward

In the 2023 Budget, some Community Housing and Bus Rapid Transit (BRT) projects were identified as priorities but could not be included in the Capital Plan due to the absence of federal and provincial funding commitments and financial sustainability considerations.

The 2023 Budget outlook included continuation of the annual 1% incremental Rapid Transit / Infrastructure Levy into 2025 and 2026 that could be used to help fund the tax levy component of funding for priority Housing and BRT projects once senior government funding has been secured at levels typical of recent similar projects.

FISCAL SUSTAINABILITY: CHALLENGES AHEAD

Bill 23 will result in lower development charge collections than originally anticipated in the Capital Plan

As a result of Bill 23, the Region is no longer able to collect development charges for housing services as of November 28, 2022. In addition, the Region will not be allowed to collect development charges for some land costs and growth-related studies starting with its next development charges bylaw update, currently planned for 2027.

Bill 23 also requires that the Region's development charge rates be phased-in over five years. This means that collections will start (retroactively) at 80% of the Council approved 2022 Development Charges Bylaw rates during the first year, increasing by five percentage points per year on the anniversary of the date that the bylaw took effect. These legislative changes, along with the cooling housing market, are anticipated to constrain the Region's development charge collections. Each subsequent Development Charge Bylaw will be subject to the same phase-in requirements.

The February 9, 2023 memo to Committee of the Whole estimated that development charge collections would be $497 million lower than previously forecasted from 2023 to 2032 as a result of known impacts of Bill 23, such as newly ineligible costs and phase-ins. The memo noted the impact from anticipated guidance related to Bill 23 residential housing exemptions and discounts could potentially further reduce development charge collections by an another estimated $1.1 billion over the next ten years.

The Province has committed to make municipalities financially whole from impacts of Bill 23, and as part of this will audit selected municipalities

The Province has recognized that Bill 23 poses a challenge to municipalities and indicated it will assist in transition by keeping municipalities financially whole. On November 30, 2022, Minister Clark sent a letter to the City of Toronto and the Association of Municipalities of Ontario (AMO) stating that, "There should be no funding shortfall for housing enabling infrastructure as a result of Bill 23, provided municipalities achieve or exceed their housing pledge levels and growth targets. That's why we are taking immediate action to launch a third-party audit of select municipalities to get a factual understanding of their finances, including their reserve funds and development charge administration."

As part of a February 23, 2023 report, Council requested the Province confirm the Region will be kept financially whole for the loss of development charge revenue due to Bill 23 and to contribute to the additional cost of regional growth-related infrastructure to achieve its new housing target of 125,000 homes in the Region by 2031.

To date, the Province has not made any funding commitment to address the shortfall, however, it has selected certain municipalities to perform audits to identify the financial impact and any potential funding sources from which the impact could be mitigated. In March 2023, Toronto became the first municipality to be selected for an audit. According to the draft Terms of Reference, an independent estimate of Toronto's Bill 23 financial impacts will be developed based on the assumption that the City meets or exceeds the new housing targets from 2022 to 2031. Parameters of the audit suggest an assumption is being made that the additional development charge collections associated with achieving, or exceeding, housing targets would not require additional infrastructure. The audit would also review whether the City levied and used development-related fees, like development charges and parkland levies, according to their intended purpose.

On May 4, 2023 the Province announced its intention to also audit Peel Region, Mississauga, Brampton, Caledon and Newmarket, and indicated that these audits would be completed later in 2023.

In the absence of a firm funding commitment from the Province, the Region will need to develop its own strategy for making up any reduction in development charge collections.

The Province has provided new direction for servicing the wastewater needs for growth in Aurora, Newmarket and East Gwillimbury

Supporting Growth and Housing in York and Durham Regions Act, 2022 has stipulated that a new dedicated system will be required to convey wastewater from the Upper York service area to Lake Ontario through the York Durham Sewage System (YDSS) and Duffin Creek Plant. The new system will require trunk sewers, forcemains and pumping stations presenting fewer opportunities to phase design and construction of this infrastructure program (refer to March 2023 report).

The 2023 Capital Plan was based on the 2022 Water and Wastewater Master Plan which phased expansions of the Upper York Water Reclamation Centre over a 30-year period to

2051. With this new direction from the Province, funding will need to be advanced in the capital plan to construct conveyance infrastructure and potentially other components of the Master Plan over a shorter period. This will also increase the cost of servicing wastewater needs for these communities.

The total cost for this new infrastructure program is now projected to be higher than the $1.06 billion previously estimated for all phases of the Upper York Project and will be incurred over a shorter timeline than the 30 years previously projected. Based on the new provincial approach for servicing the Upper York area, new resources, contracts and financial mechanisms will be required to deliver this accelerated infrastructure program. Future reports will be brought to Council to expedite retaining the resources needed to deliver this priority project effectively.

Minister's Zoning Orders increasingly being used to advance unanticipated growth and, in some cases, require additional infrastructure

Minister's Zoning Orders (MZOs) are a tool used by the Province to expedite development approvals. The *Planning Act* authorizes the Minister to issue MZOs to advance the planning process for developments that align with Provincial priorities, like long term care or housing. The Minister is not required to consider technical factors such as servicing requirements or alignment with existing Official Plans when using this authority.

Since 2021, the use of MZOs has increased, with 26 being issued for lands in York Region (Attachment 1). These MZOs are creating new growth in new community areas or infill development within existing communities, often at levels significantly higher than originally forecasted. The additional, unplanned growth creates pressure on existing infrastructure and servicing capacity. Although some of these lands may appear spatially close to the nearest Regional wastewater infrastructure, there are pre-existing limitations related to assigned capacity and timing for already approved lands.

Premature advancement of infrastructure can cause potential unintended impacts such as poor water quality in drinking water systems as well as odour and corrosion in sanitary sewers, both of which result in additional operational costs. Additionally, unplanned growth increases pressures on limited infrastructure capacity in the downstream facilities that are shared with other municipalities such as the Duffin Creek Plant. The Region's Official Plan, adopted in 2022, includes phasing policies to address the potential for accelerated development of new communities.

Other Provincial actions could result in additional servicing requirements and costs

A number of recent policy and legislative changes from the Province will have an impact on development within York Region and could potentially result in additional servicing requirements and associated costs. These changes are summarized in Table 2.

Table 2

Recent Provincial Policy and Legislative Changes

Key Details and Possible Implications

Change/Proposed Change	Key Detail(s)	Possible Implications
Removal of Lands from the Greenbelt	• Province's removal or redesignation of 330 hectares of the Greenbelt and Oak Ridges Moraine, to be made available for new housing • Landowners would be required to fund any infrastructure requirements upfront	• Will result in additional infrastructure requirements • Will require infrastructure coordination with local municipalities (due to shared servicing responsibilities) and cost sharing
Bill 97, *Helping Homebuyers, Protecting Tenants Act,* 2023 and the new proposed Provincial Planning Statement (PPS)	• No mandated intensification targets to be met, rather they are encouraged (unlike Growth Plan which contained specific intensification targets related to growth in the built boundary) • A common set of Provincial population and employment forecasts for use by municipalities will no longer be provided • Potential settlement area expansion into Greenbelt/Oak Ridges	• A municipality's development charges bylaw requires growth projections, and a lack of a common set of population and employment forecasts, on a region-wide basis, may complicate that process • Conversions of employment lands to residential has the potential to consume more servicing capacity from existing infrastructure than contemplated which could necessitate additional infrastructure, as residential users consume water (or services) at a higher rate than some employment uses (e.g., offices).
Transit Oriented Communities (TOC)	• TOC proposals beyond what is planned for in Langstaff Gateway/Richmond Hill Centre	• Extent of additional infrastructure required to accommodate TOCs is still to be determined

4. Analysis

The Fiscal Strategy strives to achieve long-term financial sustainability while maintaining a balance between current and future needs of the Region, with a focus on prudent management of the reserves, debt and the capital plan. This section updates the status of each of these elements and discusses their impact on long-term financial sustainability.

FISCAL SUSTAINABILITY: RESERVES INCLUDING ASSET MANAGEMENT NEEDS

Contributions to reserves, excluding asset management, are on target to meet their intended need

As detailed in Table 3, reserves are forecasted to be approximately $4.8 billion by the end of 2023. Annual reserve contributions are prioritized to fund known corporate liabilities as well as the non-development charges funded component of growth in the Capital Plan. After these needs are met, any remaining fiscal room is allocated to contributions for the rehabilitation and replacement of existing and planned infrastructure over the long-term. At present, only the contributions for long-term tax levy-funded asset management needs are under their targeted amount.

Table 3

Projected Reserve Balances as at Year-End 2023

Reserve	Forecasted 2023 Closing Balance ($Millions)	2023 Contribution On Target/Under Target
Asset Replacement Tax Levy	1,435	Under Target
Asset Replacement User Rate	816	On Target
Sub-total	**2,250**	
Growth Capital	1,028	On Target
Development Charges	785	On Target
Corporate Reserves[1]	753	On Target
Total	**4,816**	

[1] Corporate reserves include Canada Community-Building Fund reserve, which is currently used to fund Asset Management needs

Source: York Region Finance

Reserve balances described above are only one component of the Net Financial Assets shown in the Region's annual Financial Statements and therefore are not directly comparable. Under the Public Sector Accounting Standards used when preparing Financial Statements, Net Financial Assets also include other financial assets, such as accounts receivable, and liabilities such as outstanding debt.

Increased contributions for asset management needed to maintain assets in a state of good repair over the longer term

Through successive budgets, Council has committed to building asset management reserves that support the Region's growing asset inventory. Healthy reserve balances allow for future asset rehabilitation and replacement without the need to issue new tax levy or user rate debt.

At $2.2 billion, asset management represents the largest reserve category, of which about $1.4 billion will be for future rehabilitation and replacement of tax levy-supported assets while the remaining $0.8 billion will be for user rate-supported assets (i.e., water and wastewater services). Contribution targets developed for these reserves are based on the estimated replacement value of the assets, which is currently estimated to be over $19 billion. (See the 2021 State of Infrastructure Report.) An additional $4.9 billion of new assets is expected to be added over the next ten years for a total asset replacement value approaching $24 billion by 2033.

Through the 2021 User Rate Study, Council approved a financial plan that will see the water and wastewater system achieve and maintain full cost recovery. This includes full funding for water and wastewater asset management, such that rehabilitation and replacement can be funded while adhering to the Fiscal Strategy's guiding principle of inter-generational equity and without the need to issue new user rate debt.

As noted earlier, higher contributions to tax levy-funded asset replacement reserves will be needed to fully fund asset management needs over the longer term.

FISCAL SUSTAINABILITY: ADDRESSING THE CHALLENGES

Without Provincial compensation, the loss of development charge collections due to Bill 23 will need to be made up from other sources of revenue to fully achieve Council's approved 2023 10-year Capital Plan

As noted earlier, the estimated development charge collection loss over the next ten years, originally presented to Council in February 2023, was $497 million for known impacts and $1.1 billion for the new housing exemptions and discounts. Those estimates were made using the 2023 to 2032 planning horizon and were presented in constant 2023 dollars.

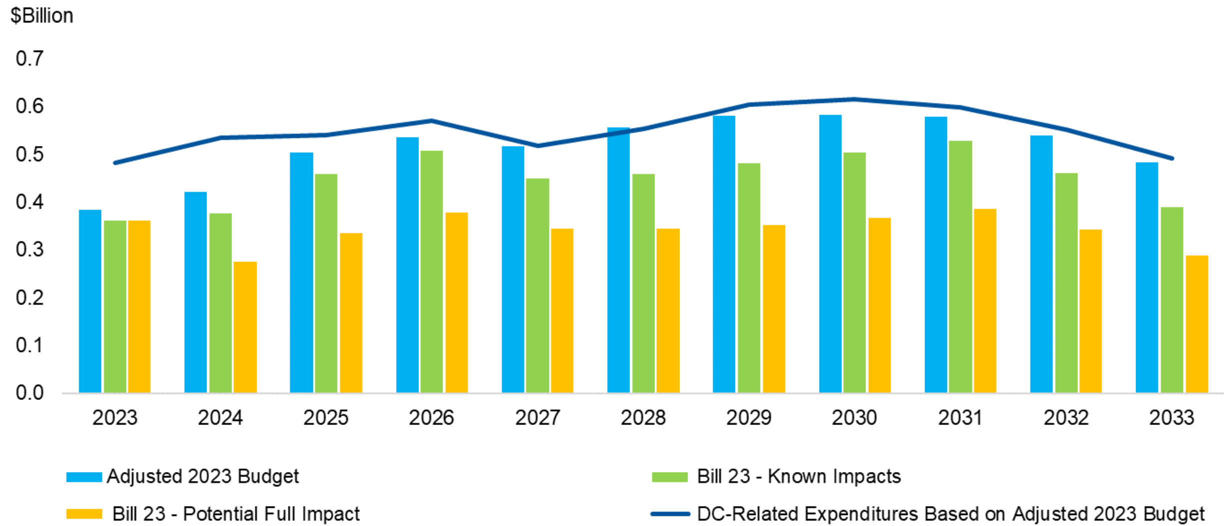
Analysis of the loss has now been updated to reflect the 2024 Budget's 10-year planning horizon ending in 2033 and is now expressed in 2024 constant dollars. As a result, the known impact of Bill 23 is now estimated to be $710 million (constant 2024 dollars), including the estimated $23 million loss that will occur in 2023 which has not yet been funded. The potential full impact, including losses from potential residential discounts and exemptions, is currently estimated at $1.9 billion over the next ten years. The lost development charge collections represent approximately 12% to 34% of forecasted development charge collections during this period.

Figure 3 below shows forecasted development charge collections from 2023 to 2033, before and after the anticipated financial impacts of Bill 23. When compared to the 2023 Budget, the development charge collections available to support new infrastructure investments are

forecasted to be significantly diminished. Without additional funding from the Province, or other revenue sources such as tax levy and user rates, there may be insufficient funds to provide the necessary infrastructure to achieve the Region's planned growth.

Figure 3

Forecasted Development Charge Collections with Bill 23 Impact

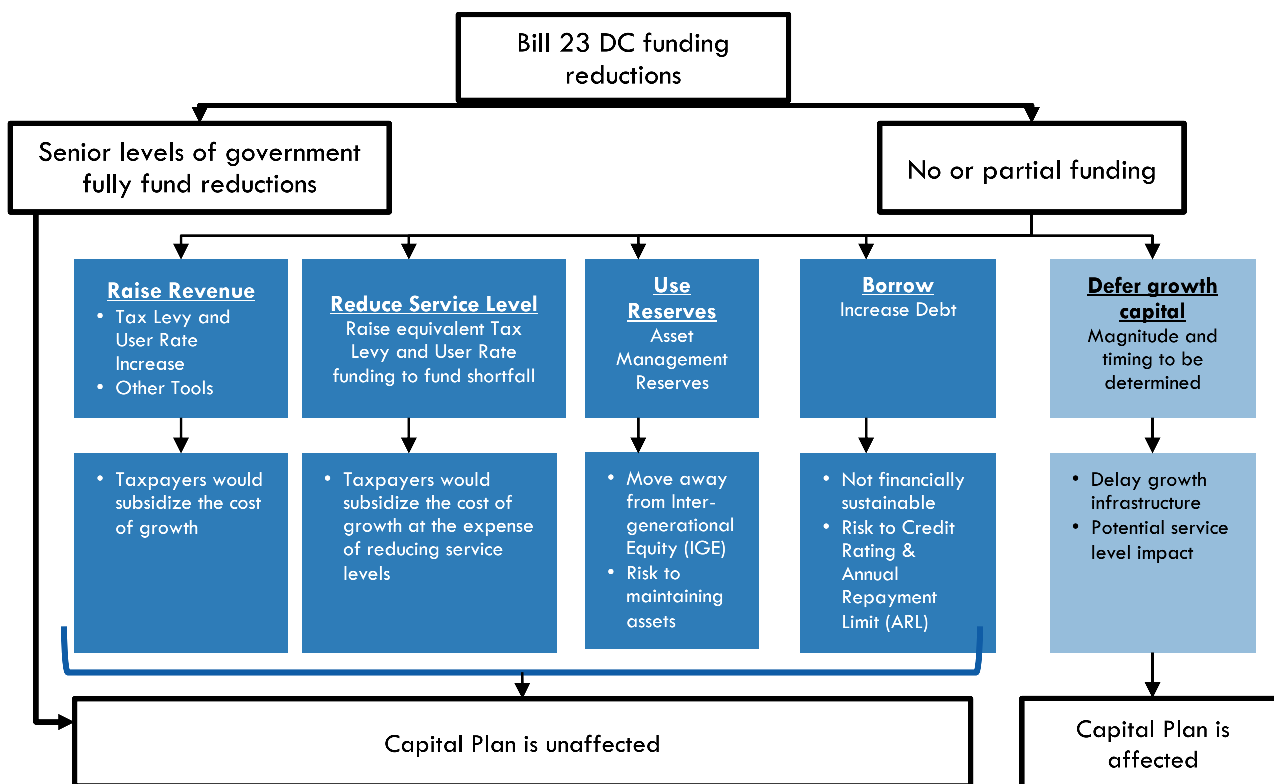


Five options have been evaluated for addressing the financial impact of Bill 23

While the Province has indicated that it will keep municipalities whole, it has yet to make any firm financial commitments to that effect. As a result, staff have prepared an evaluation of the five potential options for addressing the financial impact of Bill 23 that were presented to Council on February 23, 2023 (Figure 4).

Figure 4

Options to Address the Financial Impact of Bill 23



- **Raise Revenues:** Implement tax levy and user rate increases and then use the associated revenue to fund the development charges revenue reductions. However, under this option tax and rate payers would further subsidize the cost of growth.

- **Service level reductions:** Development charges reductions associated with tax levy and user rate funded services could be funded by reducing municipal service levels and redirecting associated savings. This would be beyond any short-term operational savings and could result in a significant impact to or elimination of some core municipal services or programs to achieve require savings. The ability to reduce some core user rate programs may be limited due to legislative requirements. As with the first option, tax and rate payers would be subsidizing the cost of growth at the expense of reducing service levels.

- **Reallocate contributions to existing reserves:** Contributions to most reserves are tied to specific liabilities and/or are required to meet planned commitments in the Capital Plan. However, staff have evaluated the option to redirect a portion of planned asset replacement reserve contributions each year to fund some or all of the development charge collections reductions.

  While asset management reserves at their current contribution levels would be sufficient to meet their requirements over the next ten years, this approach is not sustainable indefinitely and would further widen the contribution gap relative to the inter-generational equity target from the current amount of about $70 million per year,

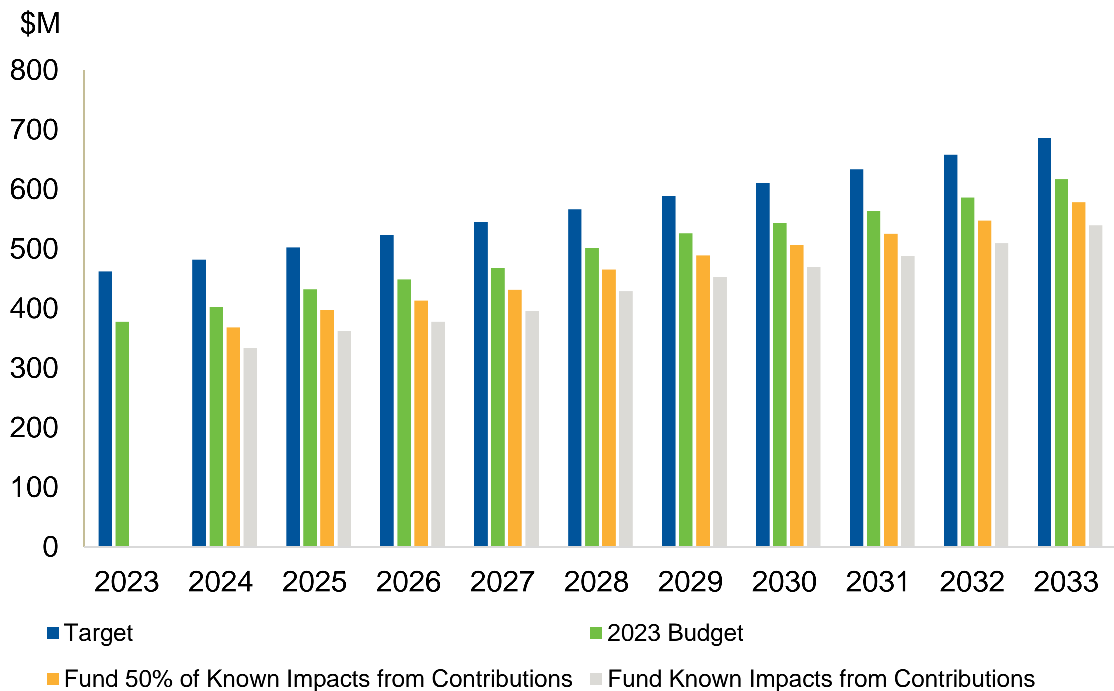
on average, to approximately $140 million per year over the next ten years to offset just known impacts of Bill 23, such as the phase-in of rates and ineligible costs. If the full potential reduction in development charge collections were funded by redirecting asset management contributions, the contribution gap would widen from $70 million per year to up to $270 million per year.

A variant of this option would be to fund a portion of the $710 million of known Bill 23 impacts by re-directing some contributions from asset management reserves, with the remainder funded from tax levy and user rate increases. Figure 5 illustrates the potential impact on asset management reserve contributions of funding 50% and 100% of these impacts. Funding 50% of known impacts would increase the asset management contributions gap from $70 million to $107 million per year.

This option moves away from the principle of the current taxpayers paying their fair share of the cost of rehabilitating and replacing the assets that they use and places a heavier burden on future generations. Over the long-term it also poses a risk to having sufficient funds to maintain assets.

Figure 5

Funding Bill 23 Known Impacts Using Tax Levy and User Rate Asset Management Reserve Contributions



- **Additional debt:** Under the *Development Charges Act, 1997,* the Region would not be able to recover the cost of additional principal and interest through future development charge collections and would therefore need to rely on other sources of revenue such as tax levy and/user rates to service it. Borrowing to finance the reduction in development charge collections without additional revenues to service

the debt would lead to unsustainable debt levels and subsequent deferral of capital investments. It would also put the Region's credit rating at risk. The Region's Annual Repayment Limit, determined by provincial regulation, would further constrain the future ability to issue debt to support growth. As a result, this was not considered to be a viable option for funding Bill 23 revenue reductions.

- **Capital deferrals:** The development charge-funded investments in the Capital Plan are required to support planned growth; delaying them could limit growth and impact service levels and further reduce future development charge collections. As a result, this was also not considered to be a viable option.

Bill 23's known impacts could be funded with tax levy and user rates starting with 2024 Budget process and a strategy for funding the full impact considered as part of the 2025 Budget process

All of the financial options identified above include some challenges and risks. Unless the Province immediately commits to funding the development charges revenue reductions, the Region will need a strategy to replace the lost revenue to achieve its planned growth and maintain municipal service levels. While the use of reserves may offer an interim funding solution, raising revenues through tax levy and user rate increases is the more financially sustainable option.

Table 4 presents an updated estimate of the one-time incremental tax levy and user rate increases that would be needed to offset lost development charge revenue over the next ten years. Proceeds from the increases would be contributed to the recently established Tax Levy Development Reserve and Rate Supported Development Reserve, and from there would be contributed to the development charges reserves as actual revenue reductions are realized.

Table 4

Estimated One-time Tax Levy and Water and Wastewater User Rate Impact Needed To Fund Development Charge Collection Reductions Due to Bill 23 Starting in 2024

Development Charges Reduction (2023-2033)	Tax Levy	User Rate
Estimate of Known Impacts ($710 million)	3.6%	6.2%
Estimate of All Impacts* ($1.9 billion)	10.2%	16.1%

Note: * All Impacts scenario includes the Known Impacts scenario and the impact of new housing exemptions and discounts pending further guidance from the Province

Only the financial impact of certain components of Bill 23 are fully known at this time. Therefore, it is recommended that only these shortfalls be funded starting with the 2024 Budget process. Once a funding decision is made by Council, staff will work with Public

Works regarding the feasibility of implementing a user rate increase for the 2024 calendar year. The tax levy and user rate increases identified above are those that would be required if implemented in 2024. Delaying implementation of the increases to 2025 or later or phasing them in over time will lead to larger overall required increases.

Alternatively, funding 50% of the shortfall from one-time tax levy and user rate increases would require increases of approximately 1.8% and 3.1%, respectively. The other 50% of the shortfall could be funded by reallocating planned contributions to asset management reserves. However, as illustrated in Figure 5, this approach would further widen the gap of planned asset management reserve contributions and is not financially sustainable over the long-term.

Once provincial guidance on the Bill 23 residential discounts and exemptions become available, expected later this year, and the availability of any provincial support is known, staff will be able to update its analysis of the expected funding shortfall and report back to Council with a potential funding strategy to address it as part of the 2025 Budget process.

A principled approach to unplanned infrastructure requirements could help to ensure alignment with Region's priorities

The Regional Official Plan (ROP) provides for a comprehensive approach to growth management that aligns land use policy with regional and local infrastructure required to support growth while maintaining financial sustainability. This approach allows the local municipalities and York Region to leverage existing infrastructure investments, phase new development and infrastructure, align investments with the ability to recover development charge collections and grow in a financially sustainable manner. The intent is that all urban areas be provided water and wastewater through Regional infrastructure based on population and employment forecasts developed through an iterative growth management, financial, and infrastructure planning process.

Minister's Zoning Orders (MZOs) are a tool used by the Province to expedite development approvals. To mitigate operational and financial sustainability risks, development accommodated through MZOs in new community areas or infill development within existing communities needs to be staged within the overall direction set out by the growth plans as outlined in the ROP. Where associated infrastructure requirements do not align with existing plans (in terms of timing, phasing or location), adhering to the key principles in Table 5 may allow the development to proceed while still meeting Regional fiscal sustainability objectives.

Table 5

Key Principles to Address Servicing Requests for Unplanned or Accelerated Growth Approved by the Province (e.g., MZO)

Principles
a. Prepaid Development Charge Credit Policy, as amended, will be considered to advance infrastructure that is not in Regional Plans where technically and operationally feasible
b. Unplanned infrastructure must be approved by the Region and shall be 100% funded by developers
c. Only the in-period growth costs of the infrastructure in the Development Charges Bylaw are eligible for recovery through development charge credits
d. Water and wastewater servicing capacity will be provided through the local municipality's existing capacity assignment
e. Ownership of servicing infrastructure will follow the Water and Wastewater Infrastructure, Regional Jurisdiction Policy
f. Delivery of Regional infrastructure will follow the Region's project delivery process including route and location selection through Environmental Assessment consistent with Region's design guidelines, standards and specifications

The Development Charge Credit Policy provides a framework for accelerating infrastructure while maintaining financial sustainability

The Region has an established framework for developers to request accelerated construction of Regional infrastructure already included in the Capital Plan. Subject to Council's approval, developers can pay to advance the works through a Prepaid Development Charges Credit Agreement. Subject to meeting the criteria set out in Council's policy, a developer would then be eligible for reimbursement of its costs through credits when development charges are payable.

DEBT FORECAST

The Region issues debt to finance the cost of building growth-related infrastructure between the time of its emplacement and the time that development charges and other revenue have been collected which can be years later. Spending too far ahead of growth leaves the Region

with too much debt and an asset base that needs to be maintained without offsetting revenue, while too little spending could slow the rate of growth.

Outstanding debt is expected to peak at $2.4 billion in 2033

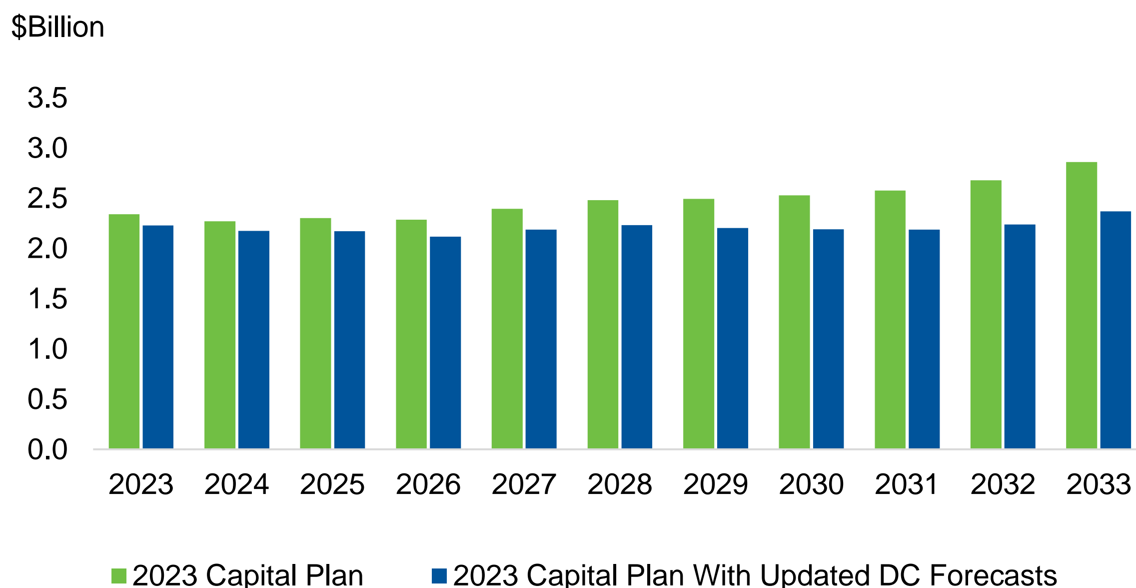
Figure 6 shows the debt forecast for the Capital Plan that was included in the 2023 Budget and now been extended one year to include 2033.

Adjustments made to the forecast include updating the cost basis for planned capital expenditures to 2024 dollars and the expected indexing of development charge rates in June 2023. Interest rates for servicing the cost of future debt have also been updated but are largely unchanged from the projection that supported the 2023 Budget.

Figure 6

Net Outstanding Debt Forecast

2023 Capital Plan vs. 2023 Capital Plan with Updated Development Charge Forecasts (Assumes Development Charge Reductions funded from Alternative Revenue Sources)



As a strategy to help create some fiscal capacity for new capital projects, such as those discussed below, capital planning allocations for existing projects will be constrained to a year-over-year adjustment of 2.9%. As a result, peak debt could decrease from $2.7 billion in 2032 to $2.4 billion in 2033 before considering debt needs for new major infrastructure projects such as Aurora, Newmarket and East Gwillimbury Servicing Solution or other unfunded priorities like affordable housing and the BRT, should funding commitments be secured from senior level governments.

The Region's AAA credit rating will not be directly impacted by Bill 23

One of York Region's fiscal sustainability principles is to maintain its AAA credit rating. In their recent report, S&P set out its expectation that the Region will continue to carefully manage its operating and capital costs resulting in strong annual surpluses. The rating agency indicated that the rating would be lowered if York Region generated lower-than-expected revenue and took on a rising level of debt that led to an interest burden above 5% of revenues.

The debt forecast shown above suggests that debt levels would remain within reasonable range and the interest burden would not exceed 5% of operating revenue within the 10-year forecast period – a key factor to maintaining a AAA rating. However, any additional debt required for capital infrastructure currently not in the Capital Plan would need to be carefully managed to maintain this credit rating.

As any funding for Bill 23 reductions cannot be financed through new development charge debt, the funding strategy is unlikely to directly affect the Region's credit rating.

CAPITAL PLAN

Continuation of 1% incremental Rapid Transit / Infrastructure Levy into 2025 and 2026 could cover the tax levy portion of the Region's share of unfunded priority projects

Including currently unfunded priority projects such as affordable housing and BRT in the Capital Plan would require an additional $2.2 billion of expenditures through 2033 (2023 dollars), of which $1.4 billion would be required from federal and provincial governments. The remaining $768 million would need to be funded by the Region.

The $768 million includes $396 million in development charge funding and $219 million from the tax levy. A further $84 million of expenditures previously eligible for development charge funding will now need to be replaced using the Bill 23 financial solutions discussed above. The remaining $69 million would be funded through Housing York Inc. (HYI) debt (mortgages). Table 6 illustrates expenditure and funding requirements for projects carried as unfunded priorities in the 2023 Regional Budget and 10-year Capital Plan

Table 6

2024-33 Expenditure and Funding Requirements for Unfunded Priorities

$ Millions	Community Housing	Bus Rapid Transit (BRT)	Total Unfunded Priorities
Gross Expenditures	423	1,790	2,213
Less:			
Expected Senior Government Funding	138	1,307	1,445

$ Millions	Community Housing	Bus Rapid Transit (BRT)	Total Unfunded Priorities
Development Charges	-	396	396
Bill 23 Funding Solution	84	-	84
HYI Debt (Mortgage)	69	-	69
Tax Levy Funding Required	**132**	**87**	**219**

Note: Senior Government Funding share is based on recent, similar projects

Although these unfunded priority projects are not currently included in the Capital Plan, BRT projects are included in the Transportation Master Plan and Housing Services projects are included in the forthcoming Community Housing Master Plan. These projects were also included in the 2022 Development Charges Background Study.

Through the 2023 Budget outlook, the recommended annual 1% incremental increases to the Rapid Transit / Infrastructure Levy for 2025 and 2026 could generate up to $246 million of additional revenue by 2033. This revenue would help fund the tax levy portion of the Region's share of these priority projects. Senior levels of government funding at least at levels committed to other recent and similar projects are still the most critical sources of revenues in moving infrastructure projects forward, which cannot be replaced by regional sources to any extent.

New provincial direction for servicing sewage in the Upper York service area will result in increased costs with advanced and compressed timelines

The 2023 10-year Capital Plan included the first phase of the proposed Upper York Water Reclamation Centre with future phases and expansions planned over a 30-year period through the Master Plan. To satisfy servicing requirements and meet the new direction from the Province, new conveyance infrastructure (sewers, forcemains, pumping stations) will be required for Aurora, Newmarket and East Gwillimbury. This construction program will cost more than the three phases of the Upper York Water Reclamation Centre anticipated in the Master Plan and will need to be condensed over a shorter project delivery timeframe.

The current 10-year capital plan held expenditures totalling $433 million for Phase 1 of the Upper York project. Although costs and timing for the new project have not been finalized, the new infrastructure program required by the Province will create additional debt pressure unless a mechanism such as a Prepaid Development Charge Agreement is used to help finance the project. Additional debt may impact the Region's credit rating and could result in the need to reprioritize other projects in the Capital Plan to ensure long-term financial sustainability.

5. Financial

This Fiscal Sustainability Update is based on the 2023 Budget and Capital Plan together with updated inflation and interest rate assumptions and a new development charges collection

forecast. There is a significant financial impact associated with Bill 23 and this report recommends an approach to address both the known and potential full impact of this legislation. In addition, there are new major capital infrastructure priorities that are not currently funded.

Maintaining financial sustainability will require careful balancing of capital investments, reserves and debt. The actions to address provincial legislative impacts, the phasing and aligning of infrastructure investment with actual pace of growth will be key to supporting these objectives.

6. Local Impact

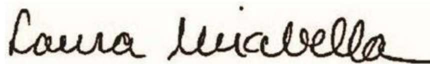
Growth-related infrastructure is vital to the local municipalities. Any fiscal pressures impacting the timing of delivery, maintenance and enhancement of this infrastructure will need to be monitored and managed.

7. Conclusion

Maintaining fiscal sustainability is a hallmark of prudent financial management and is a key factor that contributes to the Region's healthy financial position manifested through its strong credit ratings.

This report provides a mid-year update of the 2023 Fiscal Strategy on the Region's current financial position. It also outlines the challenges that could impact long-term financial sustainability as well as identifies a strategy for addressing shortfalls in development charge collections as a result of Bill 23.

For more information on this report, please contact Edward Hankins, Director, Treasury Office and Deputy Treasurer at 1-877-464-9675 ext. 71644 or Mike Rabeau, General Manager, Capital Infrastructure Services at 1-877-464-9675 ext. 75157. Accessible formats or communication supports are available upon request.



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Chief Administrative Officer

June 2, 2023

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Attachment 1 – MZO Applications and Greenbelt Conversions Map